

12/08 FANNIE MAE UPDATES ITS APPRAISAL GUIDELINES POLICY AND ISSUES LENDER DIRECTIVE. Fannie Mae has issued the following lender bulletin:

**Update to the Appraisal Policy –
Appraisal-Related Policy Changes and Clarifications**

Due to continued adverse market conditions in the real estate market, Fannie Mae is implementing additional appraisal requirements that have been established to supplement the Uniform Standards of Professional Appraisal Practice. Additionally, several existing policies have been updated with clarifications and/or reminders to assist lenders in making sound underwriting decisions when reviewing the appraisal report. The following appraisal policy updates are ***effective for all appraisals completed on or after January 1, 2009:***

Supervisory or Review Appraiser Update - NEW!

Currently, it is acceptable for an unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed or certified appraiser to perform a significant amount of the appraisal as long as the licensed or certified appraiser reviews and signs off on the appraisal. Effective for all appraisal reports completed on or after January 1, 2009, a licensed or certified supervisory or review appraiser may continue to sign the appraisal completed by an employee; however, the licensed or certified appraiser ***must complete the inspection of the subject property.***

Sales Contract Now Required to be Provided to the Appraiser - NEW!

It has always been important that an appraiser is given all the appropriate financing data and sales concessions for the subject property associated with the transaction. Although it was a common practice to supply the appraiser with a copy of the sales contract, it was not required. Effective with all appraisal reports completed on or after January 1, 2009, lenders ***must*** provide the appraiser with the sales contract and all addenda. If the sales contract is amended during the process, the lender must provide the updated contract to the appraiser.

Comparable Sales Requirement - NEW!

Due to the changes in the market condition, REO/foreclosed properties are much more prevalent. It is important that the appraiser establish the true market value of the subject property by including all available sales. Effective with appraisal reports completed on or after January 1, 2009, if REO/foreclosed properties are appropriate comparables, the appraisal ***must*** include them in the sales comparison. It is not acceptable for the appraiser to exclude these properties when establishing the market value.

Clarification on Comparable Sales

As a reminder, if the appraiser uses comparable sales outside of the subject's neighborhood, when comparable sales closer to the subject property appear to be available, the appraiser must provide an explanation as to why the specific comparable sales in the appraisal report were used.

Clarification on Minor Repairs to Existing Property

If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the livability, soundness, or structural integrity of the property, the appraiser may complete the appraisal "as is" and these items must be reflected in the appraiser's opinion of value. Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass. Minor conditions and deferred maintenance are typically due to normal wear and tear from the aging process and the occupancy of the property.

When there are incomplete items or conditions that affect the livability, soundness, or structural integrity, the property must be appraised “subject to completion” of the specific alterations or repairs. These items include, a partially completed addition or renovation, or physical deficiencies that could affect the soundness or structural integrity of the improvements including but not limited to cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, a final inspection (Fannie Mae 1004D/Freddie Mac 442) from the appraiser is required before the loan can close.

Clarification to Reporting of Current and Prior Listings of the Subject Property

Currently, the appraiser must research and comment on whether the subject property is currently for sale or if it has been listed for sale within 12 months prior to the effective date of the appraisal. As an added clarification, the appraiser must report on **each** occurrence or listing and provide the data source(s), offering prices, and date(s). For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report on both offerings.

Appraising the Entire Site of a Property Requirement

As a reminder, the appraisal **must** include the actual size of the site and not a hypothetical portion of the site. For example, the appraiser may not appraise only 5 acres of an unsubdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel.

Clarification regarding the Effective Age of the Subject Property

The effective age can be a good indication of the condition of the subject property. As a reminder, when adjustments are made to the appraisal for the effective age, the appraiser **must** provide an explanation for the adjustments and the condition of the property.

Clarification to the Verification of a Sales Transaction

It is important for the appraiser to ensure that the information being provided in the appraisal report is accurate. When the appraiser is provided with comparable sales information by a party that has a financial interest in the transaction, the appraiser must verify the information with a disinterested party. When appraising new construction, the appraiser may need to rely solely on the builder of the property they are appraising to provide comparable sales data, as this data may not yet be available through public records or multiple listing services. In this case, it is acceptable for the appraiser to verify the transaction of the comparable sale by obtaining and reviewing a copy of the fully executed HUD-1 Settlement Statement from the builder.

Clarifications to Neighborhood Boundaries and the Selection of Comparable Sales

The appraiser must perform a neighborhood analysis in order to identify the area that is subject to the same influences as the property being appraised. As a reminder, although it is preferable for the appraiser to provide comparables from the subject's neighborhood, the use of comparable sales that are located in competing neighborhoods are allowed. Comparable sales in competing neighborhood may be the best comparables available and the most appropriate for the appraiser's analysis. In this situation, the appraiser must not expand the neighborhood boundaries just to encompass the comparables selected. The appraiser must indicate the comparables are from a competing neighborhood and address any differences that exist.

Clarifications to Time Adjustments on the Appraisal Report

If the appraiser determines that time adjustments are required, the adjustments may be either positive or negative. As a reminder, the adjustments **must** reflect the difference in market conditions between the date of sale of the comparable and the effective date of appraisal for the subject property.

The Appraisal Guidelines policy will be updated on January 16, 2009, with this information. Correspondent lenders are encouraged to maintain a copy of this bulletin for your immediate reference.